

**YINGHUA ACADEMY  
Charter School No. 4140  
Minneapolis, Minnesota**

**COMMUNICATIONS LETTER**

**Year Ended June 30, 2014**

**YINGHUA ACADEMY  
Charter School No. 4140**

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**REPORT ON MATTERS IDENTIFIED AS A RESULT OF  
THE AUDIT OF THE FINANCIAL STATEMENTS**

Members of the Board and Management  
Yinghua Academy  
Minneapolis, Minnesota

In planning and performing our audit of the financial statements of Yinghua Academy as of and for the year ended June 30, 2014, in accordance with auditing standards generally accepted in the United States of America, we considered the Academy's internal control over financial reporting (internal control) as a basis for designing our auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Academy's internal control. Accordingly, we do not express an opinion on the effectiveness of the Academy's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the Academy's financial statements will not be prevented or detected and corrected, on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

The accompanying memorandum also includes financial analysis provided as a basis for discussion. The matters discussed herein were considered by us during our audit and they do not modify the opinion expressed in our Independent Auditor's Report dated September 10, 2014, on such statements.



This communication is intended solely for the information and use of the Academy Board, management, others within the Academy and state oversight agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Kern, Dewenter, Viere Ltd*

KERN, DEWENTER, VIERE, LTD.  
Minneapolis, Minnesota  
September 10, 2014

**YINGHUA ACADEMY  
Charter School No. 4140**

**OTHER DEFICIENCY  
June 30, 2014**

**REVIEW RECONCILIATION PROCEDURES OVER COMMUNITY SERVICE FUND  
REVENUE**

During testing of community service revenues for after-school activities, it was noted that amounts recorded in the general ledger did not reconcile with attendance records and fee schedule for the program selected for testing. To ensure all revenue is complete and properly recorded for community service activities, we recommend a review and revision of the current receipting and reconciliation process; ensuring procedures are instituted to reconcile attendance records to revenues received and recorded in the Academy's financial system.

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**REQUIRED COMMUNICATION  
June 30, 2014**

We have audited the basic financial statements of the Yinghua Academy for the year ended June 30, 2014, and have issued our report dated September 10, 2014. Professional standards require that we provide you with the following information related to our audit.

**OUR RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN  
THE UNITED STATES OF AMERICA AND *GOVERNMENT AUDITING STANDARDS***

As stated in our engagement letter, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of the Academy. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Academy's compliance with certain provisions of laws, regulations, contracts and grant agreements. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Our responsibility for the supplementary information accompanying the financial statements, as described by professional standards, is to evaluate the presentation of the supplementary information in relation to the financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

**PLANNED SCOPE AND TIMING OF THE AUDIT**

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit involved judgment about the number of transactions to be examined and the areas to be tested.

Our audit included obtaining an understanding of the Academy and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing and extent of further audit procedures. Material misstatements may result from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets or (4) violations of laws or governmental regulations that are attributable to the Academy or to acts by management or employees acting on behalf of the Academy.

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**REQUIRED COMMUNICATION  
June 30, 2014**

**QUALITATIVE ASPECTS OF ACCOUNTING PRACTICES**

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Academy are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2014. We noted no transactions entered into by the Academy during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Depreciation – The Academy is currently depreciating its capital assets over their estimated useful lives, as determined by management, using the straight-line method.

General Education and Special Education Aid – General Education Aid is an estimate until average daily membership (ADM) values are final. Since this is normally not done until after the reporting deadline, this Aid is an estimate. Special Education Aid is dependent on the availability of funds and complex formulas that are finalized after reporting deadlines.

Expense Allocation – Certain expenses are allocated to programs based on an estimate of the benefit to that particular program. Examples are salaries, benefits and supplies.

The financial statement disclosures statements are neutral, consistent and clear.

**DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT**

We encountered no difficulties in dealing with management in performing and completing our audit.

**CORRECTED AND UNCORRECTED MISSTATEMENTS**

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management did not identify and we did not notify them of any uncorrected financial statement misstatements.

**DISAGREEMENTS WITH MANAGEMENT**

For purposes of this letter, a disagreement with management is a financial accounting, reporting or auditing matter, whether or not resolved to our satisfaction that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

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**REQUIRED COMMUNICATION  
June 30, 2014**

**MANAGEMENT REPRESENTATIONS**

We requested certain representations from management that are included in the management representation letter.

**MANAGEMENT CONSULTATIONS WITH OTHER INDEPENDENT ACCOUNTANTS**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the Academy’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

**OTHER AUDIT FINDINGS OR ISSUES**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Academy’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

**OTHER MATTERS**

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content and methods of preparing the information to determine that the information complies with accounting principles generally accepted in United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

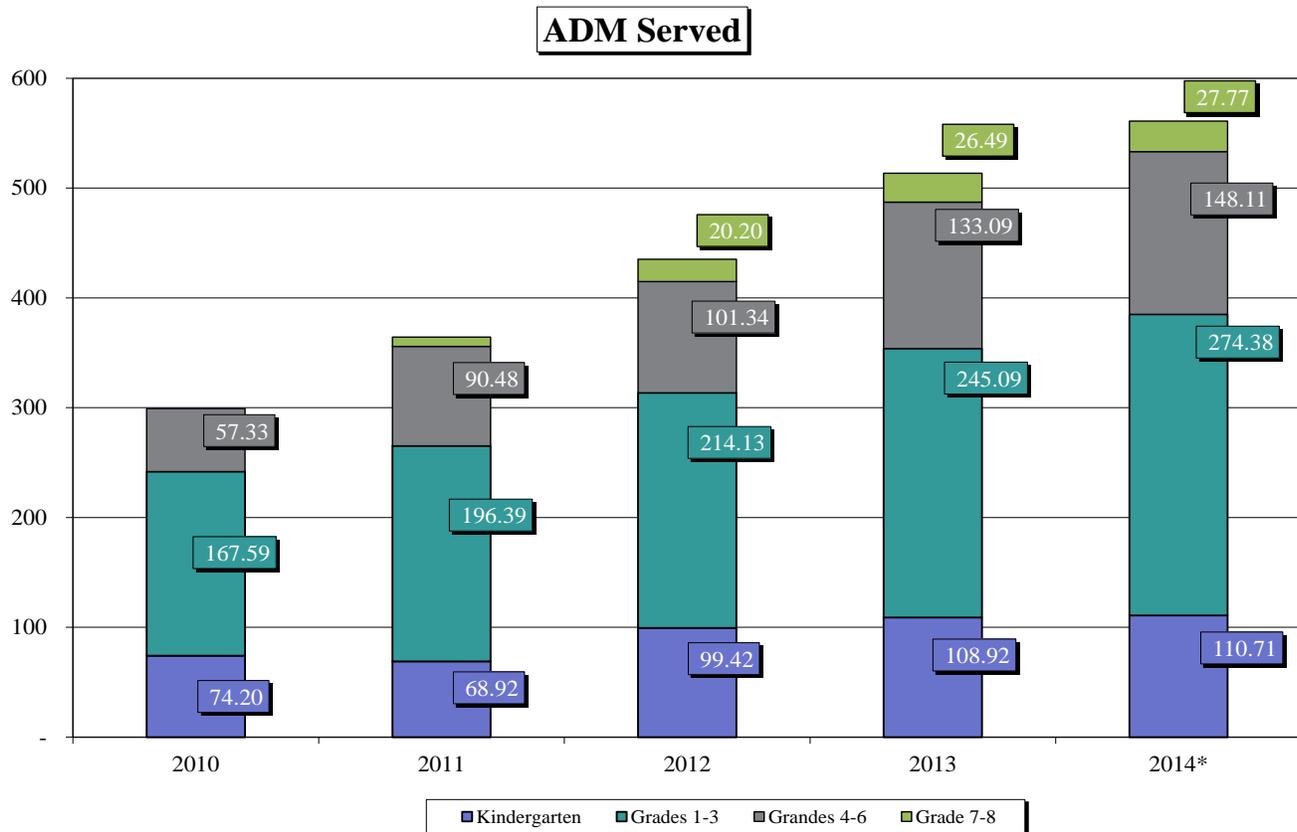
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**FINANCIAL ANALYSIS  
June 30, 2014**

The following pages provide graphic representation of select data pertaining to the financial position and operations of the Academy for the past five years. Our analysis of each graph is presented to provide a basis for discussion.

**AVERAGE DAILY MEMBERSHIP AND PUPIL UNITS**

<b>ADM</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014*</b>
Kindergarten	74.20	68.92	99.42	108.92	110.71
Grades 1-3	167.59	196.39	214.13	245.09	274.38
Grades 4-6	57.33	90.48	101.34	133.09	148.11
Grade 7-8	-	8.51	20.20	26.49	27.77
<b>Total ADM Served</b>	<b>299.12</b>	<b>364.30</b>	<b>435.09</b>	<b>513.59</b>	<b>560.97</b>



\* Estimate

The chart and graph above illustrates the trend in ADM served by the Academy over the last five years of operations. The Academy has almost doubled its student count from 2010 to 2014, with the addition of one grade level per year from 2009-2012 and opening more sections across existing grade levels.

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**FINANCIAL ANALYSIS  
June 30, 2014**

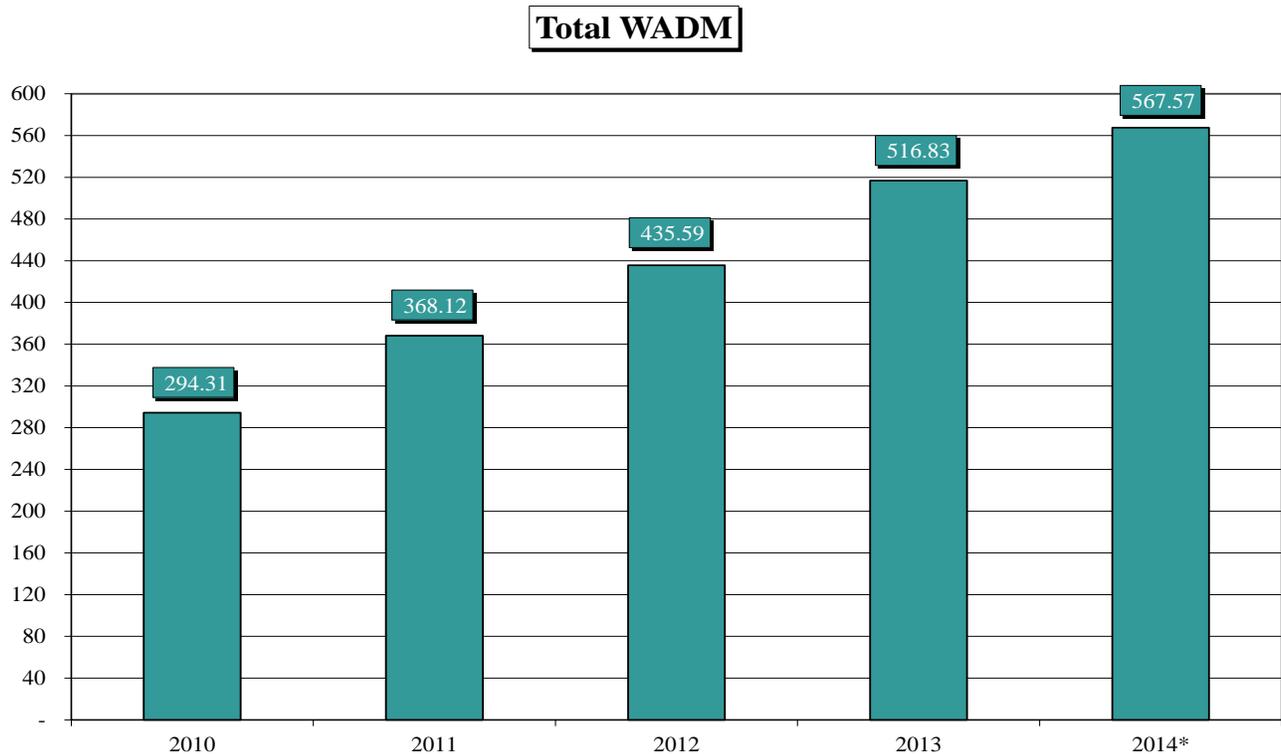
**AVERAGE DAILY MEMBERSHIP AND PUPIL UNITS**

To calculate a majority of the Academy’s education aids, the ADM amounts are converted into pupil units by weighting, based on the student’s grade level. These weighting factors are presented in the table below.

The total pupil units are converted to adjusted pupil units, which is used to calculate the Academy’s education aids. Adjusted pupil units are calculated by multiplying 77% of current year pupil units and 23% of prior year, or 100% of current year, whichever is greater. The adjusted pupil unit data is used for districts with declining enrollment to lessen the negative impact.

	<b>Pupil Units Weighting</b>			
	<b>Kindergarten</b>	<b>Elementary Grades 1-3</b>	<b>Elementary Grades 4-6</b>	<b>Secondary</b>
Year 2010-2014	0.612	1.115	1.060	1.300

The weighted average daily membership (WADM) served graph below converts the ADM served into weighted or adjusted pupil unit data for the past five years taking into consideration the above weighting factors. WADM increased over the past year given the increase in enrollment plus the higher weighting factor for student’s grade 7 and above.



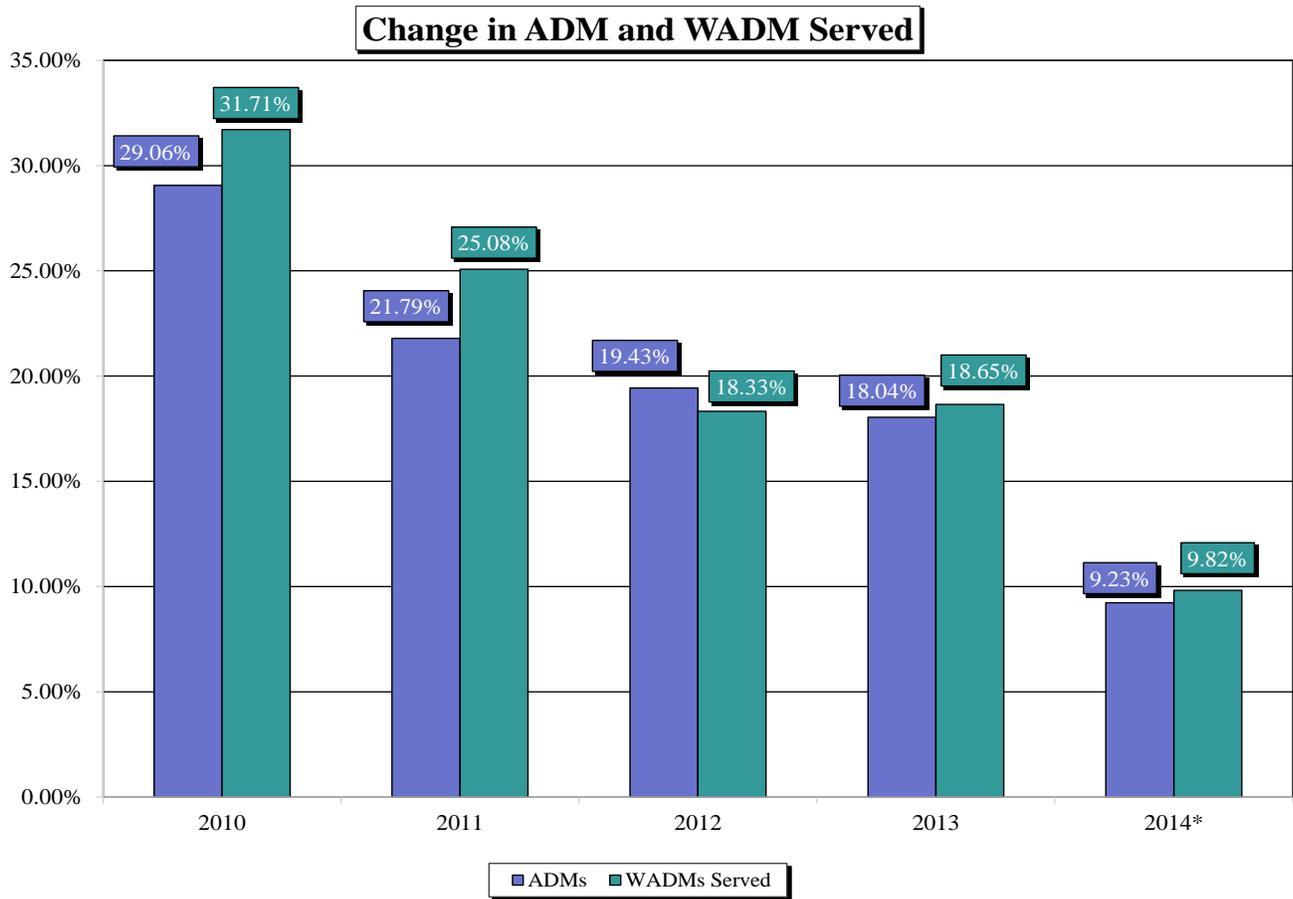
\* Estimate

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**FINANCIAL ANALYSIS  
June 30, 2014**

**AVERAGE DAILY MEMBERSHIP AND PUPIL UNITS**

The following graph illustrates the percentage change in ADM and WADM served over the past four years, which have steadily increased. As more students are added in the secondary grades, grade 7 on up, the weighting is higher and WADM will increase at a greater rate than ADM.



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**FINANCIAL ANALYSIS  
June 30, 2014**

**GENERAL FUND OPERATIONS, BUDGET AND ACTUAL**

The table below outlines the Academy's original and final budget and actual results for the General Fund. The Academy's original budget anticipated WADM of 587 and revenues would exceed expenditures by \$ 163,116. This budget was amended during the year to reflect a lower student count and grant activity. The Academy's revenues were 1.8% over this final budget and expenditures ended 1.0% under budget.

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
<b>REVENUES</b>				
Other Local Revenues	\$ 187,230	\$ 272,590	\$ 271,825	\$ (765)
Revenue from State Sources	4,622,751	4,446,839	4,498,241	51,402
Revenue from Federal Sources	186,800	182,463	221,210	38,747
Total Revenues	<u>4,996,781</u>	<u>4,901,892</u>	<u>4,991,276</u>	<u>89,384</u>
<b>EXPENDITURES</b>				
Administration	212,591	206,091	197,807	(8,284)
District Support Services	474,817	455,362	391,045	(64,317)
Regular Instruction	1,993,655	2,082,246	2,065,331	(16,915)
Special Education Instruction	453,080	443,711	470,857	27,146
Instructional Support Services	389,723	359,686	366,742	7,056
Pupil Support Services	167,760	186,025	189,530	3,505
Sites and Buildings	1,123,439	1,072,621	1,081,076	8,455
Fiscal and Other Fixed Cost Programs	18,600	15,100	11,672	(3,428)
Total Expenditures	<u>4,833,665</u>	<u>4,820,842</u>	<u>4,774,060</u>	<u>(46,782)</u>
Excess of Revenues Over Expenditures	163,116	81,050	217,216	136,166
<b>OTHER FINANCING USE</b>				
Transfers Out	-	(27,708)	-	27,708
Net Change in Fund Balances	<u>\$ 163,116</u>	<u>\$ 53,342</u>	<u>\$ 217,216</u>	<u>\$ 163,874</u>

Revenue from State sources produced the majority of the variance in revenues mostly due to special education revenue. District support services had the greatest budget variance in expenditures, this was a result of various categories coming in under budget including salaries, benefits, purchased services and supplies.

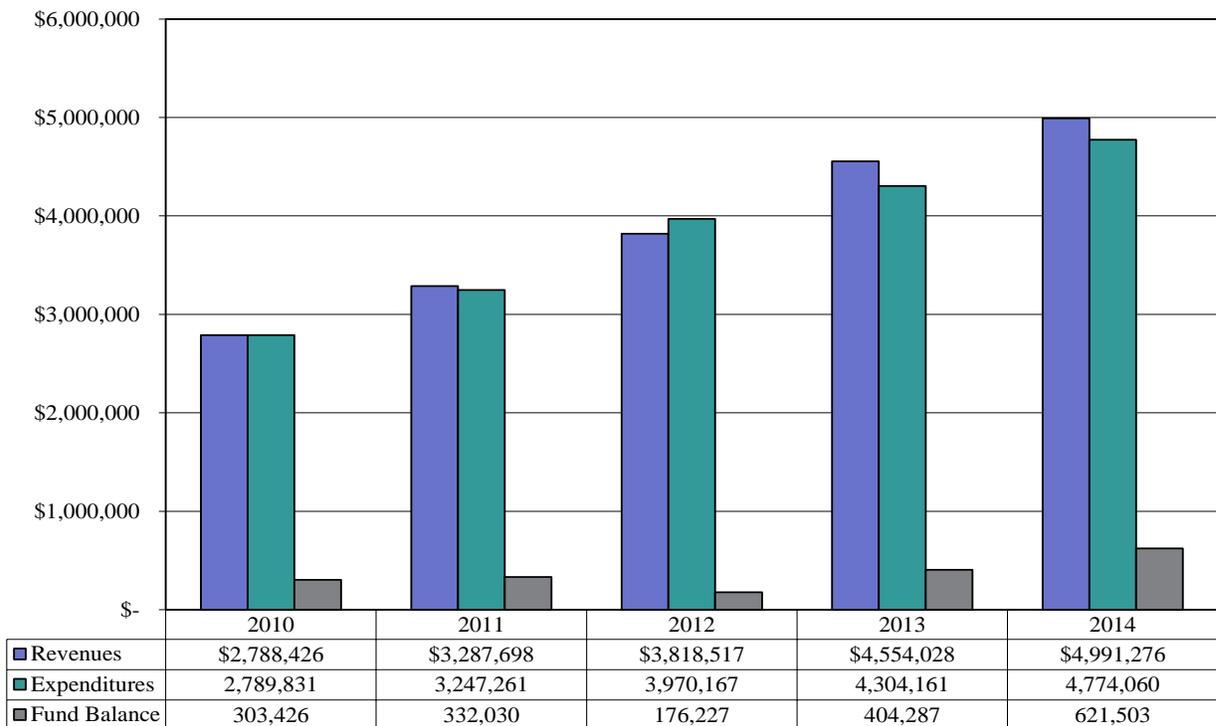
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**FINANCIAL ANALYSIS  
June 30, 2014**

**GENERAL FUND OPERATIONS**

The graph below presents the results of operations for the General Fund at June 30 for each of the past five years. Revenues have exceeded expenditures in the last two years increasing fund balance as a percentage of expenditure from 4.4% to 13.0%.

**General Fund Operations**



<b>For Year End June 30</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
<b>Fund Balance as a % of Expenditures</b>	10.9%	10.2%	4.4%	9.4%	13.0%

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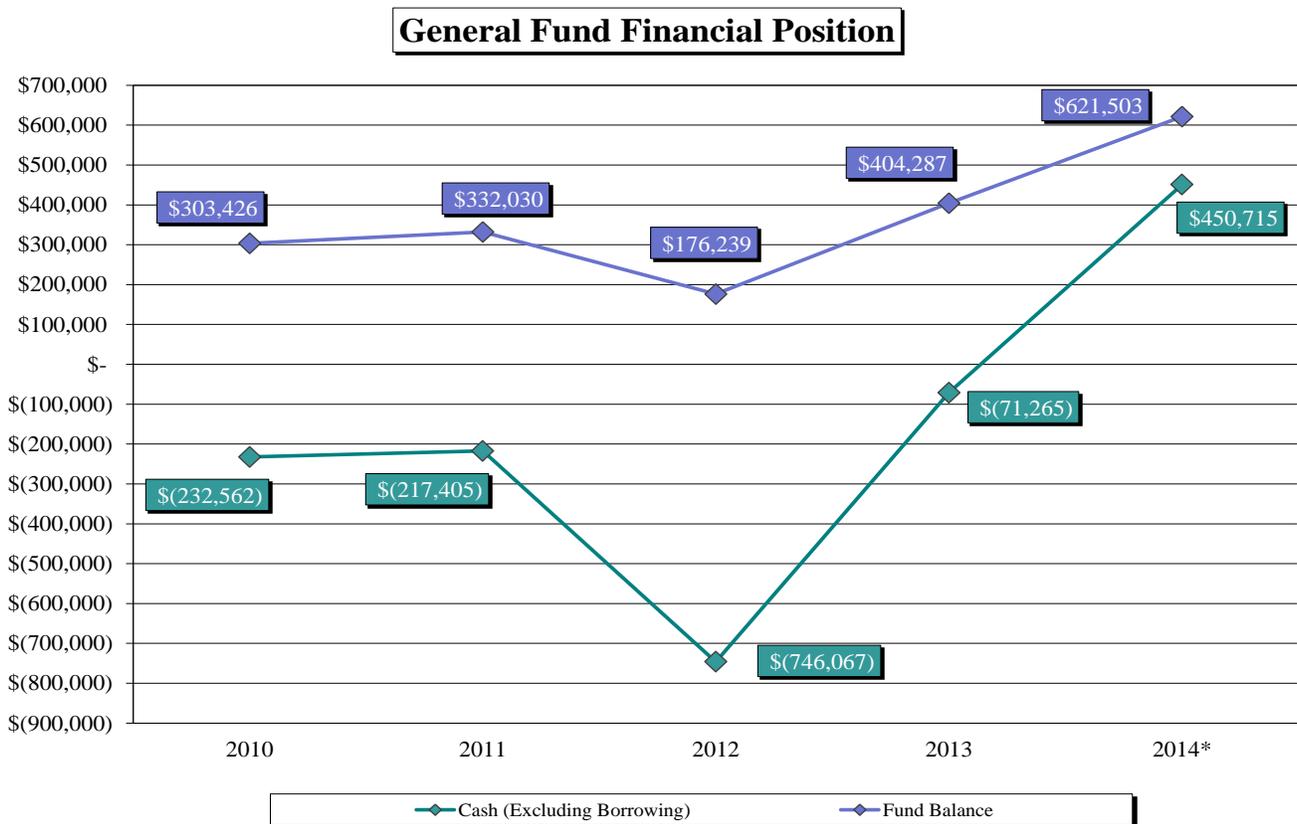
**FINANCIAL ANALYSIS  
June 30, 2014**

**GENERAL FUND OPERATIONS**

The graph below presents the fund balance of the General Fund at June 30 for each of the past five years with cash (net of any borrowings) for the same periods.

While the State historically paid 90% of state aids, only 70%, 64% and 86% of state aids were paid prior to year-end in 2011, 2012 and 2013, respectively. In 2014, the State increased the percentage of state aids paid to schools to 90%. This resulted in a decrease in amounts due from the Department of Education from \$ 630,892 in 2013 to \$ 460,774 in 2014. This also resulted in less cash flow pressure and less need to borrow in 2014 as the line of credit payable decreased from \$ 65,000 in 2013 to \$ 0 in 2014.

For the year ended June 30, 2014, the Academy had one and a half months of expenditures based on 2014 spending levels in its fund balance.



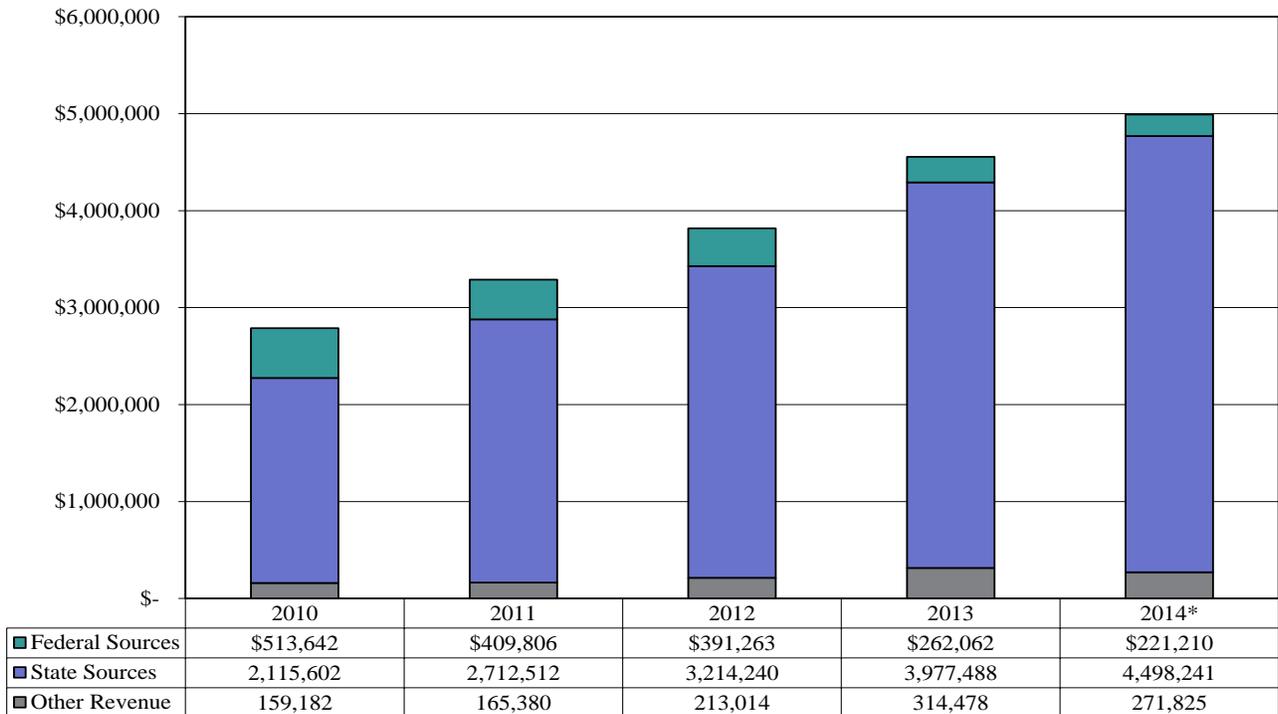
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**FINANCIAL ANALYSIS  
June 30, 2014**

**GENERAL FUND REVENUE**

Total General Fund revenues increased by \$ 437,248, or 9.6%, to \$ 4,991,276 in 2014. The largest component of the increase in revenue was the \$ 520,753 increase in state sources. This increase was mainly due to the increase in ADM. Revenue from other sources decreased because of fewer donations received in 2014. Revenue from federal sources decreased from the prior year due to the FLAP grant that was received in 2013; this grant was not received in 2014.

**General Fund Sources of Revenue**



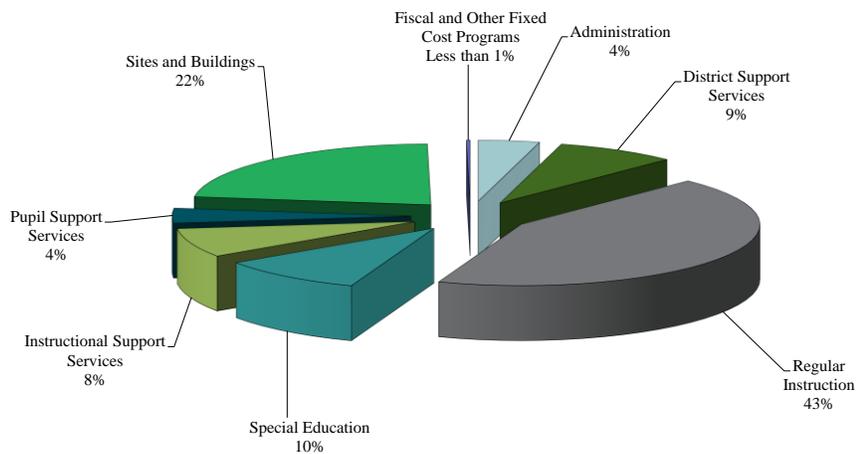
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June 30, 2014**

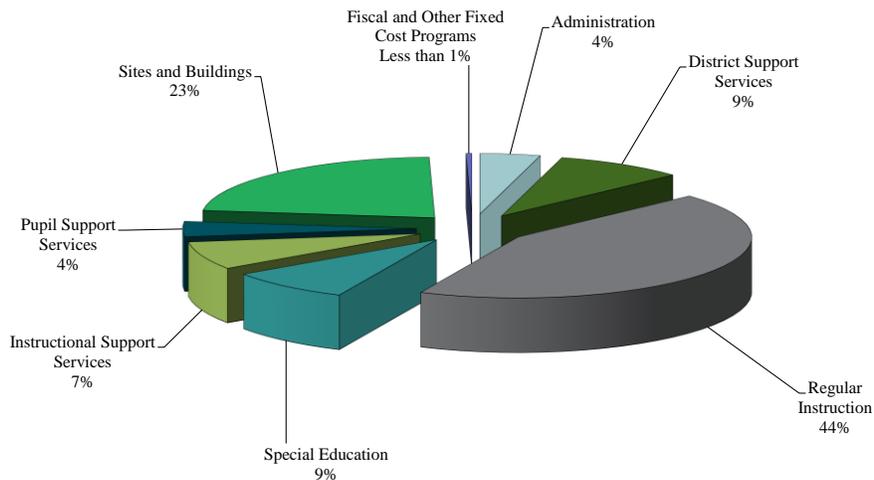
**GENERAL FUND OPERATIONS**

The following pie charts illustrate the breakdown of General Fund expenditures by program for the past two years.

**2014 General Fund Expenditures**



**2013 General Fund Expenditures**



As seen in the graphs above, expenditures among programs have remained fairly consistent from 2013 to 2014.

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**FINANCIAL ANALYSIS  
June 30, 2014**

**GENERAL FUND EXPENDITURES**

The General Fund expenditures increased \$ 469,899, or 11%, in 2014 over the prior year.

All programs except for administration and fiscal and other fixed cost programs had increases in 2014. The largest increases occurred in the programs of sites and buildings and regular instruction. These increases were due to the addition of teaching staff and increased rent for the new building in 2014.

<b>General Fund Expenditures</b>					
	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
Administration	\$ 244,566	\$ 266,143	\$ 208,585	\$ 179,695	\$ 197,807
District Support Services	204,006	222,669	314,219	384,920	391,045
Regular Instruction	1,240,909	1,383,393	1,815,479	1,880,444	2,065,331
Special Education	199,542	247,784	240,193	369,222	470,857
Instructional Support Services	212,057	308,716	412,562	320,547	366,742
Pupil Support Services	44,710	95,149	153,560	176,869	189,530
Sites and Buildings	634,791	713,864	810,633	975,489	1,081,076
Fiscal and Other Fixed Cost Programs	9,250	9,543	14,936	16,975	11,672
<b>Total Expenditures</b>	<b>\$ 2,789,831</b>	<b>\$ 3,247,261</b>	<b>\$ 3,970,167</b>	<b>\$ 4,304,161</b>	<b>\$ 4,774,060</b>

Below is a chart showing the Academy's expenditures per ADM served. Expenditures increased at a slightly higher rate than students served in 2014 causing an increase in expenditures per ADM served from the prior year. Expenditures per ADM served were below the state average per student served in the General Fund for 2012 and 2013.

	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014*</b>
General Fund	\$ 10,909	\$ 10,713	\$ 9,125	\$ 8,381	\$ 8,510
Food Service	378	518	317	356	286
Community Service	567	338	443	680	545
<b>State General Fund Average</b>	<b>\$ 10,639</b>	<b>\$ 10,251</b>	<b>\$ 10,244</b>	<b>\$ 10,666</b>	<b>Unavailable</b>

\* Estimate

\*\* Amounts listed for 2010-2013 were obtained from the Minnesota Department of Education (MDE) publication, *School District Profiles*.

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**FINANCIAL ANALYSIS**  
**June 30, 2014**

**FOOD SERVICE FUND**

The following table presents five years of comparative operating results for the Academy's Food Service Fund.

<b>For Year End June 30</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
Revenues	\$ 104,006	\$ 125,848	\$ 133,841	\$ 161,254	\$ 161,158
Expenditures	107,875	137,681	137,994	183,061	160,550
Excess of Revenues Under					
Expenditures	(3,869)	(11,833)	(4,153)	(21,807)	608
Add: Transfer In	3,869	11,833	4,153	21,807	-
Fund Balance, July 1	-	-	-	-	-
<b>Fund Balance, June 30</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 608</b>

For the first time in the years presented, revenues exceeded expenditures in the Food Service Fund. Food Service expenditures decreased \$ 22,571 due to better monitoring and oversight of the program, as a result, the General Fund did not need to subsidize the operations of the Food Service Fund through an annual transfer in 2014.

**COMMUNITY SERVICE FUND**

The following table presents five years of comparative operating results for the Academy's Community Service Fund. This Fund is used to track the Academy's after school program and summer school.

<b>For Year End June 30</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
Revenues	\$ 246,071	\$ 218,263	\$ 222,249	\$ 259,180	\$ 336,423
Expenditures	232,444	206,534	192,818	349,493	305,926
Excess of Revenues Over					
(Under) Expenditures	13,627	11,729	29,431	(90,313)	30,497
Fund Balance, July 1	93,114	106,741	118,470	147,901	57,588
<b>Fund Balance, June 30</b>	<b>\$ 106,741</b>	<b>\$ 118,470</b>	<b>\$ 147,901</b>	<b>\$ 57,588</b>	<b>\$ 88,085</b>

This Fund had produced an operating surplus in years 2009-2012 however in 2013 the fund had an operating deficit due to an increase in salaries, benefits and purchased services to support program offerings as a result of an increase in enrollment. In 2014 the Academy had an increase in enrollment in community service programs resulting in increased revenue and expenditures decreased as a result of monitoring programs and eliminating some with low participation. With an increase in revenue and decrease in expenditures the fund balance increased from 2013 to 2014.

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**LEGISLATIVE SUMMARY  
June 30, 2014**

The following is a brief summary of current legislative changes and issues affecting the funding of Minnesota school charter schools. More detailed and extensive summaries are available from the Minnesota Department of Education (MDE).

**STATE AID APPROPRIATIONS**

Total appropriations from the state general fund for E-12 education for the 2014-2015 biennium are \$ 15.6 billion including \$ 7.6 billion for 2014 and \$ 8.0 billion for 2015. This includes the addition of funding for all-day kindergarten, beginning in 2015.

The formula allowance for 2014 General Education Aid was increased \$ 78 (1.5%) to \$ 5,302. For 2015 and later, the formula allowance is set at \$ 5,831, which is an increase of 1.9% over 2014 after adjusting for the change in pupil unit weights and the elimination of the aid subtraction for pension rate changes. Beginning in 2015, basic revenue is calculated using adjusted pupil units with the new pupil weights rather than adjusted marginal cost pupil units.

As of the November 2013 forecast for the state, education appropriations have been restored to the 90%/10% payment schedule, and the tax shift was fully paid back on June 20, 2013. The final payment schedule for charter schools has been adjusted to be consistent with the school district final payment schedule when current aid payment percentage is 90 percent, beginning with FY 15 final payments. Charter schools will go back to an accelerated final payment schedule if the current aid payment percent drops below 90% in the future.

In 2015 the extended time revenue allowance increases from \$ 4,601 to \$ 5,017 to adjust for the change in pupil weights. Also in 2015, the gifted and talented revenue increases from \$ 12 to \$ 13 to adjust for the change in pupil weights.

For 2015 and later, alternative teacher compensation revenue (Q Comp) will be changed from a component of general education revenue to a separate categorical revenue. The funding amount will not change. Declining enrollment revenue, pension adjustment revenue and location equity revenue will be added as new components of general education revenue.

For 2015 only, teacher development and evaluation revenue is available for charter schools not enrolled in Q Comp for teachers employed on October 1 of the prior school year. A teacher is defined to include all staff required to be licensed including administrators.

Beginning in 2015, a new component of general education revenue, "declining enrollment revenue," will be established to replace funding previously provided to charter schools with declining enrollment through marginal cost pupil units. The declining enrollment revenue is set to equal the decline in adjusted pupil units between the prior year and the current year times 28% of the formula allowance.

Beginning in 2015, charter schools are allowed to use general education revenue generated for all-day kindergarten to meet the needs of three and four year olds in the charter schools. This does not apply to a charter school with a fee-based all-day kindergarten.

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**LEGISLATIVE SUMMARY  
June 30, 2014**

**STATE AID APPROPRIATIONS**

Beginning in 2015, a new component of general education revenue for charter schools with below average reduction for changes in employer pension contributions is established. The revenue per pupil unit is set to equal the difference between the charter school's 2014 pension adjustment per pupil unit and the state average year 2014 aid reduction per pupil unit.

English learner revenue has been extended from five to six years for 2015. Students with less than six years of ADM in Minnesota whose test results indicate proficiency in English will continue to be eligible for aid if the classroom teacher determines that the student is not proficient.

**PUPIL ACCOUNTING REFORM**

Beginning in 2015, pupil accounting reform will occur and pupil unit weights will change as follows:

Prekindergarten and Disabled	From 1.25	To 1.0
Part-time Kindergarten	From .612	To .55
All-Day Kindergarten	From .612	To 1.0
Grades 1-3	From 1.115	To 1.0
Grades 4-6	From 1.06	To 1.0
Grades 7-12	From 1.3	To 1.2

To qualify for all-day kindergarten weight, a pupil must be enrolled in a free all-day every day kindergarten program that is available to all kindergarten students at the pupil's school and must include at least 850 hours of instruction.

**SPECIAL EDUCATION**

A new special education formula is enacted beginning in 2016. To provide for a transition to the new formula, the current special education regular formula with the addition of the cross subsidy reduction aid remains in place for 2015.

Beginning in 2016, special education aid equals the sum of the new formula aid plus the new formula excess cost aid.

State total special education aid is increased by \$ 39 million for 2016 and by \$ 41 million for 2017.

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**LEGISLATIVE SUMMARY  
June 30, 2014**

**SPECIAL EDUCATION**

Beginning in 2015, tuition billing is changed so that the resident district is responsible for 90% of unfunded costs (vs. 100% currently) and the serving district/charter school is responsible for 10% of unfunded costs for open-enrolled students. Intermediate districts, cooperatives and charter schools where at least 70% of students are eligible for special education are exempt from this provision and continue to be able to recover 100% of unfunded special education costs from the resident district. This also does not apply to students placed by the resident district (e.g. at an intermediate district), or served at a charter school with very high special education concentration.

Beginning in 2016, special education aid will be paid directly to cooperatives and intermediate districts, rather than having those aids flow through the resident district. Tuition bills will be reduced to offset the aid paid to the cooperative and intermediaries.

**CHARTER SCHOOLS**

Charter school board member are required to attend annual training. A new board member who does not receive initial board training within six months of being seated on the board and does not complete the initial training within twelve months of being seated is automatically ineligible to continue on the board.

An individual is prohibited from serving as a board member if an immediate family member is a school employee or is an individual with whom the school contracts. A teacher teaching at a school and serving as a member of the charter school board of directors is exempt from the conflict of interest provisions related to teacher compensation.

Charter contracts are required to include specific conditions for contract renewal that identify performance under the primary purpose charter schools of improving learning and student achievement as the most important factor in determining contract renewal. Closure plans in a charter contract are required to include a provision regarding information and assistance that will be provided to enable students to re-enroll in another school.

Audit submissions are required to include supplemental information including a copy of management agreements with a charter management organization or an educational management organization and services agreements over the lesser of \$ 100,000 or 10% of the school's most recent audited expenditures. An independent audit should also include audited financial data of an affiliated building corporation (ABC).

ABC requirements have been modified for 2015. Requirements now allow for the purchase, renovation or expansion of an existing facility or construction of a new facility if the charter school has been in operation at least six consecutive years, has had net positive unrestricted General Fund balance for the past three years and has long range strategic financial plans in place.

Beginning in 2015, MDE will not approve lease aid unless the lease has a sum certain annual cost and an escape clause to relieve the school of its lease obligations at the time the charter contract is terminated or not renewed. In 2015, maximum lease aid is changed to \$ 1,314 per APU to adjust for pupil unit weight changes.

**YINGHUA ACADEMY  
Charter School No. 4140**

**LEGISLATIVE SUMMARY  
June 30, 2014**

**CHARTER SCHOOLS**

Charter schools are required to comply with all pupil transportation requirements that include transporting pupils who live two or more miles from school and are prohibited from requiring parents to surrender their students' transportation rights.

Charter schools are required to implement a teacher evaluation and peer review process.

Charter schools are required to publish its lottery admissions process on its web site. Kindergarten and first grade enrollment is also limited to students who are eligible under the compulsory instruction statute, same as traditional school districts. Charter schools are allowed to enroll students earlier according to prescribed enrollment procedures if notice is published on the charter school web site and the enrollment policy conforms with kindergarten early admissions policies applicable to school boards generally.

Charter schools are required to post its annual report on the school's official web site.

**YINGHUA ACADEMY  
Charter School No. 4140**

**EMERGING ISSUES  
June 30, 2014**

**Executive Summary**

The following is an executive summary of financial and business related updates to assist you in staying current on emerging issues in accounting and finance. This summary will give you a preview of the new standards that have been recently issued and what is on the horizon for the near future. The most recent and significant updates include:

- **Internal Control Integrated Framework** – COSO has issued an updated integrated framework for internal control. The update is expected to make the integrated internal control framework easier to use and apply. In addition, the update takes into account globalization of businesses today and its interdependence on technology. This update has been issued and will supersede the original framework at the end of 2014.
- **Accounting for pensions** – This accounting update has been issued and will be applied for 6/30/15 year-end reporting.

The following is an extensive summary of the current update. As your continued partner, we are committed to keeping you informed of new and emerging issues. We are happy to discuss these issues with you further and their applicability to your academy.

**COSO PROJECT – INTERNAL CONTROL INTEGRATED FRAMEWORK**

In 1992, the Committee on Sponsoring Organizations of the Treadway Commission (COSO) developed an internal control framework that has been adopted and used by entities worldwide. In 2013, COSO finalized and released an updated integrated internal control framework. The update is expected to make the integrated framework easier to use and apply. In addition, the update takes into account, the business environment of today and the reliance on and interdependence of technology within business systems.

The internal control update is not changing the core definition of internal control, the three categories of objectives or the five components of internal control.

COSO defines internal control as a process, affected by an entity's board of directors, management and other personnel. This process is designed to provide reasonable assurance regarding the achievement of the three objectives, as follows: effectiveness and efficiency of operations; reliability of financial reporting; and compliance with applicable laws and regulations.

1. Internal control is a process. It is a means to an end, not an end in itself.
2. Internal control is not merely documented by policy manuals and forms. Rather, it is put in by people at every level of an organization.
3. Internal control can provide only reasonable assurance, not absolute assurance, to an entity's management and board.
4. Internal control is geared to the achievement of objectives in one or more separate but overlapping categories.

**YINGHUA ACADEMY  
Charter School No. 4140**

**EMERGING ISSUES  
June 30, 2014**

**COSO PROJECT – INTERNAL CONTROL INTEGRATED FRAMEWORK (CONTINUED)**

The five components of internal control, which are unchanged, are as follows:

1. Control Environment - integrity, ethics, management style, etc.
2. Risk Assessment - identification and analysis of relevant risks
3. Control Activities - policies, procedures and activities, including segregation of duties
4. Information and Communication - ensure information effectively flows up, down and across the organization, both internally and externally
5. Monitoring Activities - assessment of the systems performance over time

The updated framework has changed to address the changes in business and operating environments, such as globalization of markets and operations, greater complexities in businesses, reliance on evolving technologies and expectations relating to preventing and detecting fraud. In addition, principles of effective internal controls have been added to each of the components of internal control as follows:

**Control Environment:**

1. Demonstrates a commitment to integrity and ethical values.
2. The board of directors is independent from management and exercises oversight responsibility of the performance of internal controls.
3. Management establishes structure, reporting lines, authority and responsibility.
4. Demonstrates a commitment to attract, develop and retain competent individuals.
5. Enforces accountability for individual's internal control responsibilities.

**Risk Assessment:**

6. Specifies suitable objectives with sufficient clarity.
7. Identifies and analyzes risk as a basis for how risks should be managed.
8. Assesses the potential for fraud risk.
9. Identifies and analyzes significant changes that could impact the system of internal controls.

**Control Activities:**

10. Selects and develops control activities that contribute to the mitigation of risks.
11. Selects and develops general controls over technology.
12. Deploys control activities through policies that establish what is expected and procedures that put policies into place.

**Information and Communication:**

13. Uses relevant information to support the functioning of other components of internal control.
14. Communicates information internally, including objectives and responsibilities necessary to support the internal controls.
15. Communicates with external parties regarding matters affecting internal control.

**Monitoring Activities:**

16. Conducts ongoing and/or separate evaluations to ascertain whether the components of internal control are present and functioning.
17. Evaluates and communicates deficiencies to those parties responsible for corrective actions.

**YINGHUA ACADEMY  
Charter School No. 4140**

**EMERGING ISSUES  
June 30, 2014**

**COSO PROJECT – INTERNAL CONTROL INTEGRATED FRAMEWORK (CONTINUED)**

The updated framework also has additional examples relevant to operation, compliance and reporting objectives added.

While COSO integrated internal control framework is very extensive, this is only a short summary of some of the changes of the updated framework. The updated framework will supersede the original framework at the end of 2014; however, users of the framework are encouraged to transition to the updated framework as soon as possible.

**ACCOUNTING STANDARD UPDATE – ACCOUNTING FOR PENSIONS**

GASB Statement No. 68 replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers* and Statement No. 50, *Pension Disclosures*, as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. Statement No. 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. GASB Statement No. 71 – *Pension Transition for Contributions Made Subsequent to the Measurement Date* – is an amendment of GASB No. 68.

- GASB 68 will require presentation of the local government’s proportionate share of the pension plan’s Net Pension Liability to be reported on the government-wide statement of net position and the proprietary fund statements of net position – based on last year’s employer contributions
- The Net Pension Liability is measured as the total pension liability less the amount of the pension plan’s fiduciary net position – PERA and TRA currently estimating this around \$6 – 7 billion each
- Governmental Funds will present pension expenditures equal to the total of 1) amounts paid by employer to the pension plan and 2) the change between the beginning and ending balances of amounts normally expected to be liquidated with expendable available financial resources (i.e. No Change)
- PERA and TRA have been proactive in steps toward implementation and the outlook for reporting to members appears good, based on current plans - the hope is that most of the implementation will be a “plug-in” of PERA and TRA generated data
- PERA and TRA both have a June 30 fiscal year-end – this is the measurement date you will utilize for your presentation in your June 30 financial statements twelve months subsequent to that date
- Other Deferred Inflows/Outflows will include: differences between expected and actual economic experience and investment earnings, changes in assumptions and changes in employer proportion and difference between contributions and proportionate share of pension expense

**YINGHUA ACADEMY  
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**EMERGING ISSUES  
June 30, 2014**

**ACCOUNTING STANDARD UPDATE – ACCOUNTING FOR PENSIONS (CONTINUED)**

- Required Supplementary Information will be two separate schedules – Schedule of Changes in Net Pension Liability and Related Ratios & Schedule of Contributions - 10-year presentation for each with notes
- GASB 71 clarifies that in the year of implementation you must determine the deferred outflows associated with pension contributions made subsequent to the measurement date – even if it is not practical to determine the other deferred inflows and outflows

**PERA and TRA Plan:**

- Perform annual actuarial valuations to determine funded status and liabilities
- Require plan actuary to calculate collective amount of items requiring deferred treatment
- Engage external auditor or audit actuarial census data and schedule of employer's proportionate share
- Communicate results to the school districts
- Provide RSI and suggested footnotes

**Local Impacts:**

- Your district's proportionate share of the plan's net pension liability will be recognized as a liability on your district's government-wide statements
- Expenditures will continue to be tracked in the fund statements for your statutory contributions, but a reconciling item will be needed to adjust these contributions with your government-wide expenses which will be represented by the change in the net pension liability
- As a result, your financial statements/financial position will be immediately impacted by funding shortfalls at the pension plan
- Additional RSI presenting 10 years of information regarding net pension liability, required & actual contributions and related ratios
- Adds more extensive note disclosures, including sensitivity analysis of investment return assumption
- Requires employer to track annual balances of deferred outflows of resources and inflows of resources.
- Must describe signification assumptions and other inputs used to measure total pension liability.